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BEFORE THE STATE OF WASHINGTON
ENERGY FACILITY SITE EVALUATION COUNCIL

In the Matter of Application No. 99-1:

SUMAS ENERGY 2 GENERATION
FACILITY

**DECLARATION OF
JAMES LITCHFIELD**

JAMES LITCHFIELD hereby declares under penalty of perjury as follows:

1. My name is James Litchfield. I am president of the Litchfield Consulting Group, which specializes in energy policy, electric power and salmon recovery issues. I am a former Director of Power Planning for the Northwest Power Planning Council.

2. The Energy Facility Site Evaluation Council (EFSEC) held an adjudicatory hearing concerning the proposed Sumas Energy 2 (SE2) project in late July and early August 2000. During the hearings, I provided extensive testimony regarding the need for additional electrical generating capacity in the Pacific Northwest and the effect of inadequate capacity on power prices and power availability in the region. Since that time, however, the electricity supply situation has continued to worsen and the power supply problems in California have spread to the Pacific Northwest. Several of the concerns I expressed in my earlier testimony have been borne out by recent events in the power market. The following paragraphs summarize those events.

1 3. Electricity prices have skyrocketed. Power supply problems throughout the
2
3 region have caused market instability and dramatically increased wholesale power prices this
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5 winter. The Mid-Columbia power market (Mid-C) market price reportedly peaked at about
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7 \$5000 in December 2000. That is almost 150 times the \$20 to \$40 per megawatt hour prices
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9 common a year earlier. These recent price spikes are a continuation of the market instability
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11 that began last may when prices at the California Power Exchange (CalPX) suddenly soared
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13 to over \$400 per megawatt-hour. That was an unheard of price level. Indeed, it was not
14
15 thought that power prices would ever reach several hundred dollars per megawatt hour, let
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17 alone the several thousand dollars it has reached in the past month. Since the price surge in
18
19 May, the CalPX price has remained at extremely high levels despite attempts to limit upward
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21 mobility by mandating price caps. It is clear that a shortage in generation capability
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23 combined with unusual weather this summer to create a wildly volatile and extremely high
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25 market price for power in the CalPX, and the integrated transmission system spread the
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27 rapidly increasing power market prices in the CalPX to other regional power markets in the
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29 West.

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31 4. Electricity supply shortfalls are causing power emergencies in the West. As
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33 one example, on December 8, 2000, there was a Stage 2 power warning in the Pacific
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35 Northwest that was caused by a forecast of extremely cold weather likely to reach the region
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37 in a few days. As a result, the Northwest utilities implemented the newly developed
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39 emergency plan designed to notify the region's leaders that there was a probable power
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41 emergency about to occur. The utilities in the region scrambled to secure sufficient generation
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43 to meet their forecast power requirements, bought back power from industrial customers that
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45 agreed to shutdown facilities to reduce loads, and sought voluntary curtailment from all other
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47 customers.

1 5. Federal officials have again been forced to operate the hydropower system in a
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3 way that will generate the maximum amount of hydropower to meet peak demand and
4
5 maintain system reliability. With the forecast of unusually cold weather during early
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7 December, the utilities needed to take immediate action to be able to meet the projected
8
9 electric loads. This led to public appeals to conserve electric power and BPA notified the
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11 National Marine Fisheries Service and the Salmon Managers that the power system needed to
12
13 again waive fish constraints in order to have all available hydro generation ready for the
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15 expected cold weather. The Corps of Engineers and the Bureau of Reclamation were put on
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17 notice to have all of the region's major storage and generation dams ready to produce all
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19 possible generation beginning on Monday morning December 11, 2000. This operation
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21 would violate the requirements for the hydropower system under the Endangered Species Act
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23 because it would draft reservoirs below levels needed to insure that flows for salmon could
24
25 be met next spring and it would increase flows in the lower Columbia where Chum salmon
26
27 were spawning. Attached, as Exhibit A is a copy of BPA's December 8, 2000 press release
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29 announcing its decision to operate the power system outside the limits established to protect
30
31 salmon.

32 6. Recent announcements by the Northwest Power Planning Council provide
33
34 further indication that additional generating capacity is needed. On October 11, 2000, the
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36 Northwest Power Planning Council released its Final Report entitled "Study of Western
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38 Power Market Prices: Summer 2000." A true and correct copy of the report and the
39
40 accompanying press release (obtained via the Internet) are attached as Exhibit B. In the
41
42 report, the Council describes, "the fundamental reason behind the prices seen this summer" to
43
44 be "an overall tightness of supply." (p.35) Among other things, the report concludes:
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1 "The Council believes that the market prices seen this summer are a
2 tangible manifestation of the fundamental problems identified in the
3 Council's power supply adequacy study of last winter. That is, the
4 prices are an indicator of approaching scarcity. . . . Absent some
5 action, the next similar event could result in not only high prices but
6 also a failure of the system to meet loads." (p.2)
7

8
9 "Between 1995 and 1999, WSCC peak loads increased by nearly
10 12,000 megawatts, or by about 10 percent. The increase would have
11 been even more if 1999 hadn't been a relatively mild weather year.
12 Generating capacity available during peak load months did not
13 increase to keep pace with peak load growth. While peak loads
14 increased by 12,000 megawatts from 1995 to 1999, generating capacity
15 only increased by 4,600 megawatts.
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18 At the Northwest Electricity Issues Forum held in Portland, Oregon on October 24, 2000,
19 Richard Watson, the Director of Power Planning for the Council, began his presentation by
20 explaining that his "mission is to disabuse you of the idea that if those sons-a-guns in
21 California would fix their problem, everything would be okay." According to the report of
22 the proceedings (a true and correct copy of portions of the report is provided as Exhibit C),
23 Mr. Watson went on to explain that last summer's high prices "were an indicator of tightening
24 supplies in the region" and that "[a] big question has been whether we need to do more to
25 encourage development of new generation."
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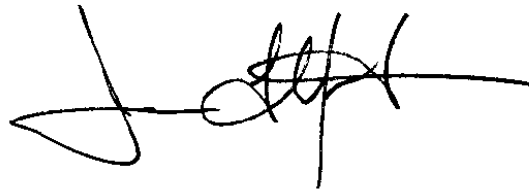
28
29 7. Recent announcements of other utilities further indicate the growing demand
30 for electric power and the need for more capacity. This fall, the Bonneville Power
31 Administration announced that it would need to acquire 3100 average megawatts of
32 additional energy to meet unexpected customer demand in the new power sales contracts that
33 will go into effect on October 1, 2001. Even without this additional load, BPA was unable to
34 meet its firm requirements to provide electric power this year and as a result it was forced to
35 waive fish and wildlife requirements. Through BPA's subscription process not all of BPA's
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1 customers were able to have all of their power requirements met by BPA. Seattle City Light,
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3 for example, was able to secure a "slice" contract from BPA but this was not sufficient to
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5 meet the City's loads, and Seattle City Light has recently announced the purchase of 100
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7 average megawatts from the natural gas-fired combustion turbine in Klamath Falls, Oregon to
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9 meet its growing local needs.

10
11 8. It is important to keep in mind that the current price spikes and electricity
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13 shortages reflect a long-term need to bring more generating capacity on line. Although
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15 facilities like the proposed SE2 project will not provide relief this month, they will help to
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17 address price spikes and shortages that will continue to occur and get worse if more
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19 generating capacity is not developed. While several other projects, such as Starbuck, Wallula
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21 and Mercer Ranch, have recently been proposed, they are far from being permitted and built.
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23 Assuming that it will take 2 years to receive the needed permits and another 2 years to
24
25 construct these facilities, they are least 4 years away from operation. Indeed, the SE2 project
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27 is one of the only new facilities in Washington of considerable size likely to become
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29 operational 18-24 months.

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31 DATED: January 4, 2001
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By _____
James Litchfield